COST-BENEFIT ANALYSIS: CHALLENGES AND OPPORTUNITIES IN CONSTRUCTION PROJECTS

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When a construction project is financed from the EU or Cohesion Fund resources, a CBA must be developed in accordance with the guidelines set by the European Commission and the particular member country. Having analyzed the CBA and methodical documentation developed, the authors identified two key problems:

- deficiencies in the methodical documentation, which disagrees with the generally established project management theory;
- low quality CBA by the project developers, which does not correspond to the guidelines or the generally established project management theory.

In order to achieve objective of article, the tasks include describe basics of CBA in construction projects, studying the efficiency of method in the construction and infrastructure development projects currently taking place in Latvia.

In all construction projects, a balance between cost and value must be established. The financial appraisal of the project can either be assessed by calculating the value of the end product and working out the project costs with an eye to value (Code of practice for project management for construction and development, 2010),

CBA is a way of taking into account factors other than income that are included in the wider term of benefits. Non-financial costs should also be recognized such as, loss of environmental facility and homes blighted by additional noise. A CBA is more relevant in the investment appraisal of public project that offers social facilities. At inception stage the main consideration is that there is an acceptable business case (Fewings, 2009).

CBA is an essential tool for estimating the economic benefits of projects. In principle, all impacts should be assessed: financial, economic, social, environmental, etc. The objective of CBA is to identify and monetise (i.e. attach a monetary value to) all possible impacts in order to determine the project costs and benefits; then the results are aggregated (net benefits) and conclusions are drawn on whether the project is desirable and worth implementing. Costs and benefits should be evaluated on an incremental basis, by considering the difference between the project scenario and an alternative scenario without the project (Guide to COST-BENEFIT ANALYSIS of investment projects Structural Funds, Cohesion Fund and Instrument for Pre-Accession, 2008).

The technique used is based on:

1. forecasting the economic effects of a project.
2. quantifying them by means of appropriate measuring procedures.
3. monetising them, wherever possible, using conventional techniques for monetising the economic effects.
4. calculating the economic return, using a concise indicator that allows an opinion to be formulated regarding the performance of the project.